

Charles H. Atherton, Secretary,
Commission of Fine Arts, at the above
address or call the above number.

Dated in Washington, D.C., June 16, 1995.

Charles H. Atherton,
Secretary.

[FR Doc. 95-15772 Filed 6-27-95; 8:45 am]
BILLING CODE 6330-01-M

OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

Membership of the Performance Review Board (PRB)

AGENCY: Office of the United States
Trade Representative.

SUMMARY: The following staff members
are designated to serve on the
Performance Review Board:

Performance Review Board (PRB)

Chair—Jim Murphy
Alternate Chair—Chris Marcich

Members:

Howard Reed
Ken Freiberg
Bob Cassidy
Dorothy Dwoskin
Don Abelson

Executive Secretary—Lorraine Green

EFFECTIVE DATE: June 13, 1995.

FOR FURTHER INFORMATION CONTACT:
Lorraine Green, Director, Human
Resources, (202) 395-7360.

John Hopkins,

*Assistant United States Trade Representative
for Administration.*

[FR Doc. 95-15766 Filed 6-27-95; 8:45 am]

BILLING CODE 3190-01-M

POSTAL SERVICE

Cashing Domestic Postal Money Orders

AGENCY: Postal Service.

ACTION: Notice of procedure.

SUMMARY: The Postal Service published
a final rule in the **Federal Register** on
February 2, 1995, that restricted the
negotiation of domestic postal money
orders to the United States and its
possessions and territories and to the
Freely Associated States. 60 FR 7912-
7913. This final rule took effect March
1, 1995, and amended section 391.11 of
the International Mail Manual,
incorporated by reference in the Code of
Federal Regulations (see 39 CFR 20.1).

In response to this rule, the Postal
Service will print domestic postal
money orders with the endorsement
"NEGOTIABLE ONLY IN THE U.S.
AND POSSESSIONS" on the face (front)

and reverse (back). This restrictive
endorsement will appear in bold, red
lettering on the lower right face and in
bold, black lettering on the reverse.

These printing changes to the
domestic postal money order do not
alter current regulations established by
the final rule. In addition, current
domestic postal money orders printed
without this restrictive endorsement
will continue to be valid and negotiable
for international use.

The Postal Service intends to charge
back any domestic postal money order
bearing the restrictive endorsement
accepted by a bank in any foreign
country that is not identified as a U.S.
possession or territory or as part of the
Freely Associated States. This charge
will be handled in accordance with the
standard commercial banking
procedures in the United States.

EFFECTIVE DATE: June 28, 1995.

FOR FURTHER INFORMATION CONTACT: Al
Gillum, (703) 905-3818.

SUPPLEMENTARY INFORMATION: Because
the Postal Service receives numerous
complaints from foreign postal
administrations regarding the
acceptance of domestic postal money
orders by the banking systems in those
countries, and because the domestic
postal money order is being used in
international money laundering
schemes, the Postal Service determined
to restrict the negotiation of domestic
postal money orders to the United States
and its possessions and territories and
to the Freely Associated States. This
change prevents the practice of
circumventing the policies and
procedures for the acceptance of
international postal money orders
agreed to within the Universal Postal
Union, and minimizes the use of
domestic postal money orders in
international money laundering
activities.

The Postal Service is committed to
complying with the agreements with its
foreign partners, and to taking proactive
measures to minimize the use of its
products and services in illegal
activities. A concerted effort is being
made to restrict the negotiation of
domestic postal money orders to the
United States and its possessions and
territories and to the Freely Associated
States.

U.S. possessions and territories are
American Samoa (including Manua
Island, Swain's Island, Tutuila Island);
Baker Island; Guam; Howland Island;
Jarvis Island; Johnston Island; Kingman
Reef; Midway Island; Navassa Island;
Northern Marianas Islands (including
Rota, Saipan, and Tinian); Palmyra
Island; Puerto Rico; Sand Island; U.S.

Virgin Islands (including St. Croix, St.
John, and St. Thomas); and Wake Island.

The Freely Associated States are
Marshall Islands (including Ebeye and
Majuro Island); Palau (including Koror
Island); and Micronesia (including
Chuuk (Truk) Island, Kosrae Island,
Pohnpei Island, Yap Island).

Stanley F. Mires,

Chief Counsel, Legislative.

[FR Doc. 95-15767 Filed 6-27-95; 8:45 am]

BILLING CODE 7710-12-P

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-35874; File No. SR-NASD-
94-60]

Self-Regulatory Organizations; Order Approving Proposed Rule Change and Notice of Filing and Order Granting Accelerated Approval of Amendment No. 2 to the Proposed Rule Change by the National Association of Securities Dealers, Inc. Relating to Applicable Position Limits for OTC Collar Transactions

June 21, 1995.

I. Introduction

On October 27, 1994, the National
Association of Securities Dealers, Inc.
("NASD" or "Association") submitted
to the Securities and Exchange
Commission ("SEC" or "Commission"),
pursuant to Section 19(b)(1) of the
Securities Exchange Act of 1934
("Act")¹ and Rule 19b-4 thereunder,² a
proposed rule change to amend its
options position limit rule to provide
that positions in conventional put and
call options establishing OTC collars
meeting certain qualifications need not
be aggregated for position limit
purposes ("OTC Collar Aggregation
Exemption").³ The NASD filed
Amendment No. 1 to the proposed rule
change on December 14, 1994
("Amendment No. 1").⁴ Notice of the
proposal and Amendment No. 1
appeared in the **Federal Register** on
December 29, 1994.⁵ No comment
letters were received on the proposed

¹ 15 USC § 78s(b)(1) (1988).

² 17 CFR 240.19b-4 (1992).

³ Section 33(b)(3) of the NASD Rules of Fair
Practice provides that "options contracts of the put
and call class on the same side of the market
covering the same underlying security" are
aggregated for position limit purposes. Accordingly,
long calls and short puts are aggregated and short
calls and long puts are aggregated.

⁴ See Letter from Thomas R. Gira, Assistant
General Counsel, NASD, to Stephen M. Youhn,
Derivative Products Regulation, SEC, dated Dec. 14,
1994. See *infra* note 8.

⁵ Securities Exchange Act Release No. 35134 (Dec.
21, 1994), 59 FR 67359.

rule change. On May 19, 1995, the NASD filed Amendment No. 2 ("Amendment No. 2") to the proposal to clarify in the language of the proposed exemption the maximum number of contracts that may comprise a collar that is governed by the OTC Collar Aggregation Exemption.⁶ The effect of Amendment No. 2 is to clarify that the exemption from aggregation only applies to the hedge exemption portion of the position limit. This order approves the NASD's proposal, as amended.

II. Description of Proposal

An OTC collar transaction involves the purchase (sale) of a put and the sale (purchase) of a call on the same underlying security to hedge a long (short) stock position. The proposal would amend Section 33 of the NASD Rules of Fair Practice, the NASD's position limit rule for standardized and conventional options, in the following manner:

Section 33 of the NASD By-Laws

Section (b)(3) Position Limits

(A)(1)–(5) No change.

(A)(6) OTC Collar Aggregation Exemption

(a) For purposes of this subsection, the term OTC collar shall mean a conventional equity option position comprised of short (long) calls and long (short) puts overlying the same security that hedge a corresponding long (short) position in that security.

(b) Notwithstanding the aggregation provisions for short (long) call positions and long (short) put positions contained in subsections (A)(1)–(A)(3) above, the conventional options positions involved in a particular OTC collar transaction established pursuant to the position limit hedge exemption in subsection (A)(5) need not be aggregated for position limit purposes, provided the following conditions are satisfied:⁷

1. the conventional options can only be exercised if they are in-the-money;
2. neither conventional option can be sold, assigned, or transferred by the holder without the prior written consent of the writer;
3. the conventional options must be European-style (*i.e.*, only exercisable upon expiration) and expire on the same date;
4. the strike price of the short call can never be less than the strike price of the long put; and
5. neither side of the transaction can be in-the-money when the collar is established.⁸

6. the size of the conventional options in excess of the applicable basic position limit for the options established pursuant to subsections (A)(1)–(3) above must be hedged on a one-to-one basis with the requisite long or short stock position for the duration of the collar, although the same long or short stock position can be used to hedge both legs of the collar.

(c) For multiple OTC collars on the same security meeting the conditions set forth in subsection (b) above, all of the short (long) call options that are part of such collars must be aggregated and all of the long (short) put options that are part of such collars must be aggregated, but the short (long) calls need not be aggregated with the long (short) puts.

(d) Except as provided above in subsections (b) and (c), in no event may a member fail to aggregate any conventional or standardized options contract of the put class and the call class overlying the same equity security on the same side of the market with conventional option positions established in connection with an OTC collar.

Nothing in this subsection (6) changes the applicable position limit for a particular equity security.

According to the NASD, market participants typically establish OTC collars to hedge price exposure to long stock positions. However, the NASD states that the current position limit aggregation rules constrain members seeking to establish OTC collar positions for their customers. For example, if a customer wanted to hedge 900,000 shares in XYZ with an OTC collar (assuming XYZ is subject to a position limit of 4,500 contracts), and if the calls and puts associated with the collar must be aggregated, the customer could only establish the collar for 450,000 shares (*i.e.*, 4,500 short calls and 4,500 long puts).⁹ As a result, the remaining 450,000 shares of XYZ would remain unhedged.

Accordingly, in order to facilitate the needs of market participants seeking to hedge their long stock positions with OTC collars, the NASD proposes to waive the position limit aggregation rules for certain OTC collar transactions meeting specific criteria. Specifically, the OTC Collar Aggregation Exemption

was established. Amendment No. 1 changes this requirement by stating that neither side of a particular OTC collar may be in-the-money at the time the collar is established.

⁹ In this instance, 4,500 of the 9,000 contracts are permissible under the basic position limit contained Section 33(b)(3)(A)(1) of the NASD Rules of Fair Practice and the remaining 4,500 contracts are permissible because they are hedged by the 900,000 shares of XYZ and, therefore, fall within the NASD's hedge exemption contained in Section 33(b)(3)(A)(5).

will provide that puts and calls on the same side of the market (*e.g.*, short calls and long puts) which are established pursuant to Section 33(b)(3)(A)(5), the equity option position limit hedge exemption rule ("equity option position limit hedge exemption") are not required to be aggregated for position limit purposes if they are part of an OTC collar transaction meeting all of the conditions of proposed Section 33(b)(3)(A)(6) above.¹⁰

Consistent with the NASD's equity option position limit hedge exemption rule, to the extent that the size of the controversial options involved in a particular OTC collar exceed the size of the applicable basic position limit for that option, the proposed OTC Collar Aggregation Exemption provides that such options positions must be hedged on a one-for-one basis with the corresponding long/short stock position for the duration of the collar. The NASD also notes that the OTC Collar Aggregation Exemption will not affect the NASD's other aggregation rules for options positions on the same side of the market. Thus, the NASD will aggregate all standardized and conventional options positions with options positions established pursuant to the OTC Collar Aggregation Exemption, as well as options positions established in multiple OTC collars on the same security.

The proposal also contains provisions governing the aggregation of conventional options positions establishing multiple OTC collars. Specifically, for multiple OTC collars on the same security meeting the conditions for the OTC Collar Aggregation Exemption, all of the short (long) call options that are part of such collars must be aggregated and all of the long (short) put options that are part of such collars must be aggregated, but the short (long) calls need not be aggregated with the long (short) puts.

The following examples are intended to illustrate the operation of the OTC Collar Aggregation Exemption (assume a position limit of 4,500 contracts and an applicable hedge exemption of 4,500 contracts):

A. An investor has no established conventional or standardized option position. The investor may establish an OTC collar consisting of 6,750 short calls and 6,750 long puts. Pursuant to proposed Section 33(b)(3)(A)(6)(b)(6), the options

¹⁰ Under Section 33(b)(3)(A)(5), the Equity Hedge Exemption rule, the hedge exemption may not exceed twice the position limit established under NASD rules. Position limits are set at either 4,500, 7,500 or 10,500 contracts on the same side of the market, depending on the characteristics of the stock.

⁶ See Letter from Thomas R. Gira, Assistant General Counsel, NASD, to Stephen M. Youhn, Derivative Products Regulation, SEC, dated May 19, 1995.

⁷ See Amendment No. 2.

⁸ The NASD originally proposed that one side of the collar could be in-the-money when the collar

comprising the collar in excess of the applicable basic position limit (*i.e.*, 4,500) must be hedged on a one-for-one basis with 450,000 shares. The total number of allowable option contracts on the same side of the market in this example would be 13,500.

B. An investor is short 1,000 calls. The investor may establish an OTC collar consisting of 6,250 short calls and 6,250 long puts. Pursuant to proposed Section 33(b)(3)(A)(6)(b)(6), the options comprising the collar in excess of the applicable basic position limit (*i.e.*, 4,500) must be hedged on a one-for-one basis with 450,000 shares. The total number of allowable option contracts on the same side of the market in this example would be 13,500.

C. An investor is short 6,500 calls (4,500 pursuant to the position limit and 2,000 pursuant to the hedge exemption) and long 200,000 shares of stock. An OTC collar consisting of 2,500 short calls and 2,500 long puts may be established. Pursuant to proposed Section 33(b)(3)(A)(6)(b)(6), the options comprising the collar in excess of the applicable basic position limit (*i.e.*, 4,500) must be hedged on a one-for-one basis with an additional stock position of 250,000 shares. The total number of allowable option contracts on the same side of the market in this example would be 11,500.

D. An investor is short 9,000 calls (4,500 pursuant to the position limit and 4,500 pursuant to the hedge exemption) and long 450,000 shares of stock. An OTC collar may not be established since the investor has already reached the maximum allowable position limit.

III. Commission Findings and Conclusions

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange, and, in particular, the requirements of Section 6(b)(5) of the Act. Specifically, the Commission believes the conditions and limitations contained in the proposal strike a reasonable balance between the need to facilitate legitimate hedging needs of market participants and the need to have rules in place that do not compromise the regulatory purposes served by the equity option position limit rules. In particular, because the conditions and limitations for the OTC Collar Aggregation Exemption effectively provide that neither leg of the OTC collar can be in-the-money at the time the collar is established and that no more than one leg of the collar can ever be exercised throughout the term of the collar, the Commission does not believe that the larger options position resulting from the proposed non-aggregation of short (long) calls and long (short) puts for the hedge exemption portion of the position limit pursuant to the OTC Collar Aggregation

Exemption will increase the potential for market manipulation or disruption.¹¹

In addition, even though the conventional options positions involved in a particular OTC collar transaction do not have to be aggregated (if the collar meets the standards for the aggregation exemption), the collar position must be aggregated with all other standardized and conventional options on the same side of the market overlying the same security. In this respect, the Commission notes that while the NASD's proposal does not change the recognized position limit levels (*i.e.*, 4,500, 7,500, 10,500), it does alter the manner in which contracts are aggregated for position limits purposes, with the net result being an increase in certain situations in the number of contracts an investor may hold on the same side of the market from 9,000 to 13,500 (assuming a position limit of 4,500). While the maximum number of contracts an investor may hold is effectively increased, the proposal's requirements ensure that the amount of stock that may be controlled by an investor's option position is not increased. Instead, the proposal merely facilitates the use of an OTC collar by not aggregating the positions for determining the number of contracts pursuant to the hedge exemption. To the extent that investors have greater latitude to use a collar for hedging purposes, the proposal will enhance investors' risk management of stock positions.¹²

The Commission also believes that the larger options positions available by virtue of the proposal will not result in disruptions to the underlying stock market due to the conditions and limitations that must be met to be eligible for the aggregation exemption, and the NASD's surveillance program. In this connection, the Commission notes the NASD will monitor the use of the OTC Collar Aggregation Exemption to ensure that NASD members are complying with the requirements of the exemption.

The Commission finds good cause for approving Amendment No. 2 to the proposed rule change prior to the thirtieth day after the date of publication of notice of filing thereof in

¹¹ Furthermore, in order to ensure that the positions covered by this proposal are maintained in a collar transaction, the proposal requires that all of the conventional options comprising the OTC collar must be European-style and expire on the same date.

¹² As noted above, the non-aggregation of collar positions only applies to positions established pursuant to the existing hedge exemption. See *supra* note 10.

the **Federal Register**. Amendment No. 2 has the effect of limiting and clarifying the maximum number of contracts that may comprise a particular OTC collar established pursuant to the OTC Collar Aggregation Exemption, and as a result, should further reduce any speculative or manipulative impact caused by the net increase in the number of options held by an investor. Therefore, the Commission believes there is good cause to approve Amendment No. 2 to the proposal on an accelerated basis.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning Amendment No. 2. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room. Copies of such filing will also be available for inspection and copying at the principal office of the NASD. All submissions should refer to the file number in the caption above and should be submitted by July 19, 1995.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,¹³ that the proposed rule change (SR-NASD-94-60) is approved, as amended.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁴

Margaret H. McFarland,
Deputy Secretary.

[FR Doc. 95-15810 Filed 6-27-95; 8:45 am]

BILLING CODE 8010-01-M

[Release No. 34-35875; File No. SR-NASD-95-27]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by National Association of Securities Dealers, Inc. Relating to the Adjustment of Open Orders

June 21, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934

¹³ 15 USC 78s(b)(2) (1988).

¹⁴ 17 CFR 200.30-3(a)(12) (1994).